CONSOLIDATED COMPUTER INC.

ANNUAL REPORT 1976

Corporate Directory

DIRECTORS

D.C. Early
Greenshields Inc.

J.H. Joyce
Chairman & Chief Executive Officer
Ontario Development Corporation

D. Kendall
Chairman, Enterprise Development Board

D.G. Kilgour
Partner, Kilgour, World, Flood & Ronson

L.K. Sellmeyer
President & Chief Executive Officer
Consolidated Computer Inc.

J.H. Tory
Partner, Tory, Tory, Des Lauriers & Binnington

OFFICERS OF THE COMPANY

L.K. Sellmeyer
President & Chief Executive Officer

D.C. Heuston
Vice President, Finance & Treasurer

P.C. Baines
Vice President, Canadian Marketing

R. Marsland
Vice President, Manufacturing

W.H.C. Kooij
Vice President, Advanced Systems Development

D.G. Kilgour
Secretary

REGISTRAR AND TRANSFER AGENT

Royal Trust Company

BANKERS

The Toronto-Dominion Bank

AUDITORS

Coopers & Lybrand

SOLICITORS

Kilgour, World, Flood & Ronson

OFFICES AND PLANT

Head Office — Canada
50 Gervais Dr.
Toronto, Ont.
M4C 1Z3

CC Consolidated Computer International Inc.
275 Wyman St.
Waltham, Mass.
02154

Manufacturing Plant
2421 Lancaster Rd.
Ottawa, Ont.
K1B 4L5

LaCompagnie canadienne d'informatique (CCI) ltée.
2 Place Quebec, Suite 344
Quebec City, P.Q.
G1R 2B5

SALES AND SERVICE LOCATIONS

Canada

Edmonton, Alta.
Fredericton, N.B.
Halifax, N.S.
Hamilton, Ont.
Kitchener, Ont.
London, Ont.
Montreal, P.Q.
Ottawa, Ont.
Quebec City, P.Q.
Regina, Sask.
Toronto, Ont.
Vancouver, B.C.
Winnipeg, Man.

U.S.A.

Atlanta/Macon, Ga.
Boston, Mass.
Chicago, Ill.
Cleveland/Akron, Ohio
Columbus, Ohio
Dallas/Houston, Tex.
Harrisburg, Pa.
Hartford, Conn.
Los Angeles, Cal.
New York, N.Y.
Philadelphia, Pa.
Phoenix, Ariz.
San Francisco, Cal.
Springfield, Ill.
Washington, D.C.

CONSOLIDATED COMPUTER INC.

To Our Shareholders

Revenue from sales, rentals and services for the year ended December 31, 1976 were $25,298,865 compared to $15,809,010 in 1975. Net profit was $24,117 compared to a loss of $12,876,184 the year before.

p8 See

Emphasis on expense reduction and a more condensed form of management resulted in decreased levels of administrative and marketing costs. These goals were accomplished as the Company bore the non recurring expense of a major management change and a shift in marketing strategy. The conversion of debt to equity, coupled with additional changes in financial position during the year vastly improved the Company's working capital at year end. This improvement will allow CCI to aggressively pursue its marketing strategy during 1977.

Certain events of 1976 require a chronicled account in order to appreciate their effect on CCI's operations. These activities relate to CCI's involvement with Central Dynamics Limited of Montreal, Fujitsu Limited of Japan and the Federal and Ontario Governments.

In January 1976, Central Dynamics Limited assumed management of CCI's operations. This arrangement provided a path by which CDL, over a period of time, would acquire a major equity interest in CCI. The combination of CDL's and CCI's data processing business appeared to provide natural benefits to both Companies. Essential to this plan was the Governments' approval of continued financial support and the conversion by them of approximately $21 million of debt. Tentative approval, by the Governments, expected early in 1976 was not rendered until June. At this point, legal staff assigned by the various parties commenced proper documentation of the necessary agreements. It was during this period that the drafting of legal language developed a growing complexity, which had been unforeseen by CDL's management, and led to CDL's eventual withdrawal from the arrangement in October 1976.

During the year, the Federal and Ontario Governments concluded arrangements with CCI providing new elements of financing and the conversion of various debt. Debt instruments in the amount of $20,967,454 were converted to 13,978,302 common shares of the Company on December 30, 1976.

An immeasurable amount of assistance was provided to the Company in concluding its negotiations with Fujitsu, by the Federal Departments of Industry Trade and Commerce Justice Department, External Affairs and the Ontario Development Corporation on behalf of the Province of Ontario.

Fujitsu Limited is a large, full integrated Japanese computer company, whose association with CCI began in 1973 as an OEM customer for KEY-EDIT systems. This relationship has extended into a mutual interest in the development of small computer systems for the North American market. Fujitsu's obvious strength in system and hardware components will provide CCI the technical staying power so necessary for today's market place.

Building on a prior, generalized technical support agreement, the Company signed an "Agreement in Principle" with Fujitsu regarding the licensing of small technology in July 1976. This agreement was finalized in March 1977 in Ottawa. The Federal and Ontario Governments' direct assistance was extremely beneficial to CCI in completing this valued association with Fujitsu. New products developed as a result of this license will be introduced early in 1978. Fujitsu now holds 4,000,000 shares of CCI as a result of the two licenses and can option another 1,000,000 shares in the near future.

The outlook for CCI, considering the completion of re-organization, refinancing and the new technology license with Fujitsu is greatly improved. We now consider our major marketing opportunity as being in North America, as a result of continued performance of our Canadian operations and through major expansion in the U.S. marketplace. During 1977, CCI will refine its ability to sell in this market, building an organization that will be ready to capitalize on development of new products now underway.

OEM business will be further deemphasized until we can demonstrate that participation in other world markets can be profitable to the Company.

We do not expect 1977 to be a growth year. Our concentration will be one of quality of operations, and improved earnings. As our strength develops in the U.S. market, we will be able to look forward to growth in 1978 with the introduction of new products complimenting the current KEY-EDIT line, and expanding into application areas in addition to data entry.

On behalf of the Board of Directors I would like to thank the employees of CCI for their effort and dedication in the year past.

PRESIDENT

"We now consider our major marketing opportunity as being in North America, as a result of continued performance of our Canadian operations and through major expansion in the U.S. marketplace."

Highlights

OPERATIONS

Consolidated sales of the Company for the year were $25,298,865 increasing over the 1975 level of $15,809,810. Significant change in mix of sales occurred as the Company shifted from overseas markets to the North American Market.

($000)	1976	1975	1974
North American Sales (including U.S.)	$18,574	$ 3,619	$ 3,196
Other Exports	6,723	12,190	12,199
TOTAL SALES	$25,297	$15,809	$15,395

This trend will continue into 1977 as the Company's marketing thrust will continue to be in the North American market.

The Company's North American sales are recorded on a sales basis compared with 1975 and 1974, which were recorded on a rental basis. The change in recording occurred because the Company, during 1976, negotiated the sale of KEY-EDIT 50/60 and KEY-EDIT 1000 products on lease on a non-recourse basis to leasing companies.

The Company's net profit for the year was $24,117 compared with a loss of ($12,876,184). The Company generated a positive increase in working capital of $483,799 from operations as well as significant increase from other sources as described below.

Included in the operation of 1976 are significant non-recurring expenses relating to the sale of KEY-EDIT equipment to leasing companies.

INCREASE IN WORKING CAPITAL

Working capital at December 31, 1976 was $2,338,057, an increase of $29,053,986 over the 1975 working capital deficit of $26,715,729. This increase provides CCI with a current ratio of 1:1.2. The major contributing factors to this significant increase were:

Increase in Long Term Debt

The Company has established a long term bank loan of $5,000,000. The loan is jointly insured against loss to the bank by Her Majesty in Right of Canada and Ontario Development Corporation.

Repayment of Short Term Notes, and Loans from Proceeds of the Sale of Leased Assets to a Leasing Company

During 1976, the Company negotiated the sale of certain leased KEY-EDIT 50/60 and 1000 products on a non-recourse basis to a leasing companies. This agreement for sales covered certain equipment which had been on lease, as well as future KEY-EDIT 50/60 and 1000 products leased to customers.

As part of this agreement, the Company shares in the rental residuals of the assets on lease, provided the leasing Company achieves certain performance levels. If realized, these residuals will begin to materialize in 1981, and subsequent periods. No provision has been made in the books to reflect this potential income.

Conversion of Short Term Debt to Common Shares

On December 30, 1976, Her Majesty in Right of Canada and Ontario Development Corporation, converted $7,577,211 of long term debt and $13,390,243 of current debt to 13,978,302 common shares, thus materially affecting the Company's working capital.

LINE OF CREDIT

The Company has negotiated an operating line of credit of $5,300,000 with its banker. At December 31, 1976 the Company had drawn down and utilized $3,545,604 of this authorized line. This loan is insured to the bankers by Her Majesty in Right of Canada against loss.

SUMMARY OF CANADIAN OPERATIONS — 1976

During the first quarter of 1976, order and shipment activity in Canada was maintained at an acceptable level. AIB regulations had little effect on sales after initial uncertainties in the business community were resolved.

Order activity in the second and third quarters was severely affected by the uncertainty in the private and public sectors as to the stability of the Company subsequent to the management reorganization in January, 1976.

Shipments occurred at a reduced level, largely as a result of orders obtained in the first quarter, and the installation of some large multi-system Government orders booked in 1975. The fourth quarter saw improvement in both orders and shipments.

During 1976, significant orders were obtained and shipped to customers, maintaining CCI's position as the foremost supplier of key-to-disk

“The long term market potential required, not a reduced, but a greater investment in order to realize its potential.”

systems in Canada. KEY-EDIT 1000 shipments increased, indicating a high level of customer confidence in the product, and a definite market trend and requirement for highly intelligent data entry systems.

We forecast a continuance of this trend through 1977 and 1978. The shipment of 25 KEY-EDIT 60 systems to the Department of Supply and Services of the Government of Canada proceeded at a rate of approximately 2 per month in the last three quarters of the year.

New system orders were shipped to organizations such as Air Canada, Bank of Canada, Canada Cement Lafarge Ltee, Canada Permanent Trust, Grafton-Fraser Ltd., University of Western Ontario, and Pacific Western Airlines, indicating the acceptance of KEY-EDIT systems in a wide range of business and government applications.

In November of 1976 the Company took steps to incorporate a wholly-owned subsidiary in the Province of Quebec. The Company anticipates a favourable attitude from the Government of Quebec towards “LaCompagnie canadienne d'informatique (CCI) ltée.”

In summary, Canadian Operations maintained stability throughout a difficult 1976, and established a solid foundation of business and personnel on which to build a profitable operation in 1977.

SUMMARY OF U.S. OPERATION — 1976

The effect of reorganization and general uncertainties surrounding CCI during the first half of 1976 severely affected our operations in the U.S. Our studies indicated, however, that the long term market potential required, not a reduced, but a greater investment in order to realize its potential. Both new orders and shipment were low, running at approximately 50% of our performance in Canada. After the Governments' approval of CCI's re-financing in June 1976 Consolidated Computer International Inc., CCI's subsidiary in the U.S. embarked on an expansion program which included both direct expansion and expansion through associated organizations. As a result, CCI is now located in the major computer markets in the U.S. measured in terms of both number of installations and the gross computer product.

Expansion in the Western U.S. was accomplished through a new relationship with Turpin Systems Company, a small, high technology, California based organization. CCI and Turpin Systems are currently co-located with sales, technical support and service personnel in Los Angeles, San Francisco, Phoenix, Dallas, Fort Worth and Houston. Progress of this arrangement was visible during the fourth quarter and we expect Turpin Systems to be a major contributor to our future success in the Western United States.

Negotiations for large compliments of data entry systems are underway with both the State of Pennsylvania and the State of Arizona. These activities will result in orders and revenue in excess of $3 million of KEY-EDIT 1000 systems during 1977.

A major factor in our ability to penetrate the U.S. market is the increasing popularity of the KEY-EDIT 1000. We continue to see an increasing demand for this sophisticated, large data entry system throughout this market area.

FUJITSU RELATIONSHIP

The development of new products is now benefiting by the agreement between CCI and Fujitsu which was consummated in March of 1977. In the rapidly expanding small computer business, technology plays a key role in providing new capabilities with high performance and superior reliability at a low cost.

Fujitsu has consistently pioneered new developments in the fields of computer and telecommunications technology and has an established record of producing equipment of outstanding quality. Its aggressive R & D program covers a wide range of areas including very large scale integrated circuits, large scale semi-conductor memories, plasma displays, advanced optical character recognition and an array of small computer system peripherals.

CCI has the unique advantage of being able to draw from some of these coherent and foresighted technologies into which Fujitsu has invested heavily, and co-ordinate its own development activities with theirs to provide end-user products which are both timely and cost effective for the North American market. This combined approach, provided by the Fujitsu/CCI arrangement, has the added flexibility of a phased manufacturing plan where complete products or product parts can be initially imported from Japan and subsequently manufactured by CCI in North America. In this way, CCI can take full advantage of the systems' components and peripherals which are the result of years of research and development.

This advantage is already being exploited in the area of small computer systems as applied to the data entry field. In the future, this will be expanded to include more powerful small business systems.

"Consolidated Computer will expand the use of its systems into broader areas associated with data capture and data communications."

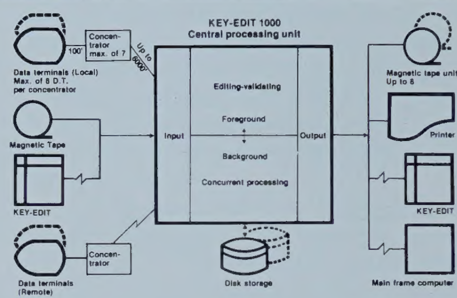
Today's Products

Since pioneering key-to-disc data entry system in 1969, Consolidated Computer has shipped over 1500 systems and has been a technological leader in the highly competitive data entry field. Currently, the KEY-EDIT product line covers the full range of intelligent data entry and communications requirements.

The most sophisticated system in the KEY-EDIT product line is the KEY-EDIT 1000, which provides powerful, high volume data entry, data validation and pre-processing capabilities. The KEY-EDIT 1000 supports up to 56 terminals and provides extensive editing, retrieval, processing and communications functions. These features work together to minimize errors and overheads, directly reduce the cost of handling data, while at the same time providing flexibility to allow the customer to maximize system performance to meet his own individual requirements. Through the use of communications, the KEY-EDIT 1000 system capabilities can be extended to other remote locations with clusters of video terminals and printers. Such configurations allow the customer to distribute the responsibility for data accuracy and retain centralized control of procedures. The KEY-EDIT 1000 system can also communicate with large mainframe computers through one of the many communication protocols or by directly connecting to a peripheral channel of an IBM System/370.

Consolidated Computer has been very successful in marketing the KEY-EDIT 1000 system and as a result now maintains a large, diversified base of customers throughout the world, in government, finance, insurance, transportation and manufacturing.

The KEY-EDIT 60 system is designed for the medium-sized user who requires the flexibility of program-controlled data entry and editing, either on a stand-alone basis or as a branch office system in a larger network. The system can start with configurations of as few as four video terminals and grow to support a total of 24. Extensive options allow the KEY-EDIT 60 to be used as a Remote Job Entry (RJE) terminal to large mainframe computers while data entry and editing operations are being performed.



ABOVE: A graphic representation of KEY-EDIT 1000 capabilities.

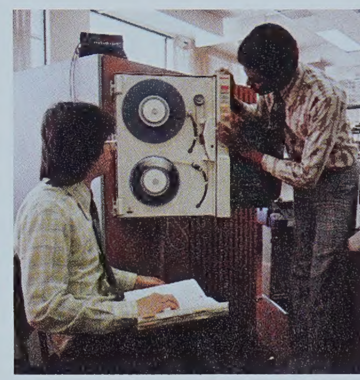
BELOW: A recent KEY-EDIT 1000 installation of AVCO, London, Ontario.

CONSOLIDATED COMPUTER INC.

For the user with less demanding needs, the KEY-EDIT 80 provides a two-terminal configuration complete with high speed telecommunications for RJE operation.

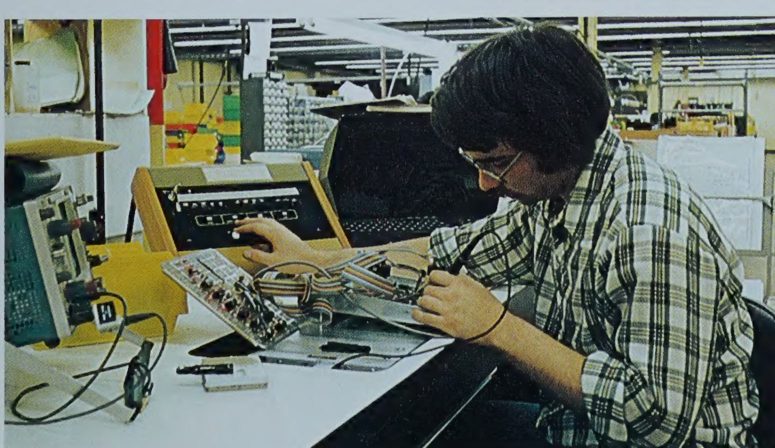
Through joint development work with Scan-Optics Inc., a leader in the optical character recognition (OCR) field, KEY-EDIT systems have been developed to form the ScanEdit® product line. These integrated systems provide automatic reading and processing of printed, typed or hand-written pages.

In the future, Consolidated Computer will expand the use of its systems into broader areas associated with data capture and data communications. The firm will also continue to increase the capabilities of its product lines in order to provide the data processing and communications tools required by the user at each level of his organization.



KEY-EDIT® is a registered trademark of Consolidated Computer Inc.

Consolidated Computer Inc. has been fortunate in attracting a solid base of well qualified and dedicated people, a few of whom are pictured here.



CONSOLIDATED COMPUTER INC.

Consolidated Balance Sheet

As at December 31, 1976

Assets

	1976 $	1975 $
CURRENT ASSETS		
Cash and term deposits	**89,311**	236,123
Acounts receivable —		
Trade	**1,564,615**	1,770,471
Other	**1,796,567**	680,260
Notes receivable — trade (note 2)	**5,074,380**	4,088,966
Inventories (notes 1 and 3)	**6,919,888**	5,912,838
Due from an officer	**29,000**	30,000
Prepaid expenses	**70,422**	179,629
	15,544,183	12,898,287
NOTES RECEIVABLE — TRADE (note 2)	**3,455,069**	5,235,466
FIXED ASSETS (notes 1 and 4)		
Plant, development and demonstration equipment	**2,372,793**	3,001,079
KEY-EDIT 100 equipment on lease	**373,970**	1,786,830
KEY-EDIT 50 and 1000 equipment on lease	**—**	6,081,000
Furniture, fixtures and leasehold improvements	**1,044,597**	979,727
	3,791,360	11,848,636
Less: Accumulated depreciation	**2,397,256**	4,875,071
	1,394,104	6,973,565
	20,393,356	25,107,318

Liabilities

	1976 $	1975 $
CURRENT LIABILITIES		
Bank loan (note 5)	**3,545,604**	5,175,049
Demand loans (note 6)	**—**	21,380,345
Accounts payable and accrued liabilities	**3,677,452**	2,758,935
Due to Ontario Development Corporation	**465,073**	894,236
Notes payable (note 2)	**5,074,380**	4,088,966
Taxes payable	**189,059**	95,485
Current portion of long-term debt	**254,358**	5,221,000
	13,205,926	39,614,016
LONG-TERM DEBT, less current portion (note 7)	**5,953,779**	3,820,825
NOTES PAYABLE (note 2)	**3,455,069**	5,235,466
	22,614,774	48,670,307

Deficit Less Capital Stock

	1976 $	1975 $
DEFICIT (note 10)	**25,373,212**	25,397,329
CAPITAL STOCK (note 8)		
Special shares	**1,061,940**	1,745,042
Common shares	**22,089,854**	89,298
	23,151,794	1,834,340
	(2,221,418)	(23,562,989)
	20,393,356	25,107,318

ON BEHALF OF THE BOARD

Donald Early

Director

Director

CONSOLIDATED COMPUTER INC.

Consolidated Statement Of Operations

For the year ended December 31, 1976

	1976 $	1975 $
NET SALES, RENTALS AND SERVICES (note 9)	25,298,865	15,809,010
COST OF SALES, RENTALS AND SERVICES	15,540,714	15,907,455
	9,758,151	(98,445)
EXPENSES		
Marketing, administration and other	6,647,461	8,205,110
Research and development	2,087,088	2,576,845
Government grants	(700,000)	(237,370)
Interest on long-term debt (note 8)	131,625	230,121
Interest on short-term borrowings (net) (note 8)	1,567,860	2,003,033
	9,734,034	12,777,739
PROFIT (LOSS) FOR THE YEAR	24,117	(12,876,184)
EARNINGS (LOSS) PER SHARE (note 11)		

$3.34

Consolidated Statement Of Deficit

For the year ended December 31, 1976

	1976 $	1975 $
DEFICIT — BEGINNING OF YEAR	25,397,329	12,521,145
Profit (loss) for the year	24,117	(12,876,184)
DEFICIT — END OF YEAR	25,373,212	25,397,329

Consolidated Statement Of Changes In Financial Position

For the year ended December 31, 1976

	1976 $	1975 $
SOURCE OF FUNDS		
Profit for the year	24,117	—
Item not affecting working capital —		
Depreciation	459,682	—
	483,799	—
Undepreciated cost of equipment sold to leasing company (note 9)	5,272,000	—
Issue of common shares (note 8)	21,317,454	—
Long-term notes receivable	1,780,397	2,069,248
Long-term debt	2,132,954	—
Fixed assets	—	95,440
	30,986,604	2,164,688
USE OF FUNDS		
Loss for the year	—	12,876,184
Items not affecting working capital —		
Depreciation	—	(2,048,022)
Deferred credit	—	60,000
	—	10,888,162
Long-term notes payable	1,780,397	2,069,248
Fixed assets	152,221	4,826,987
Long-term debt	—	3,146,151
	1,932,618	20,930,548
INCREASE (DECREASE) IN WORKING CAPITAL	29,053,986	(18,765,860)
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	(26,715,729)	(7,949,869)
WORKING CAPITAL (DEFICIENCY) — END OF YEAR	2,338,257	(26,715,729)

Notes To Consolidated Financial Statements

For the year ended December 31, 1976

1. **ACCOUNTING POLICIES**

Consolidation

The consolidated financial statements include CC Consolidated Computer International, Inc., the wholly-owned United States subsidiary and the non-operating United Kingdom subsidiary.

Foreign exchange

Current assets and current liabilities in foreign currencies have been converted to Canadian funds at the approximate year-end rate of exchange. The resulting gains or losses are included in the consolidated statement of operations.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Fixed assets

Fixed assets are valued at cost, less accumulated depreciation. Depreciation is provided from the date the assets are put into service on a straight-line basis over the estimated useful life, except for leasehold improvements, which are depreciated over the life of the lease.

2. **NOTES RECEIVABLE**

The notes are receivable over a period of 36 months and are insured by the Export Development Corporation. The company has an agreement with its bankers to finance these notes in equal amounts and on the same terms, to a maximum of $10,000,000. The bank's loans are secured by a collateral floating charge debenture and a pledge and assignment of the notes receivable. The ability of the company to make additional borrowings under this agreement with its banker terminates on January 30, 1977.

3. **INVENTORIES**

	1976 $	1975 $
Marketing	4,113,481	2,113,753
Manufacturing, including work in process	1,691,133	2,933,923
Repair, overhaul and field service	1,115,274	865,162
	6,919,888	5,912,838

Under an inventory purchase agreement, an Ontario government agency is purchasing certain inventory components from the company. The company is obligated to repurchase these inventory components at such times as they are shipped to its customers. The value of that inventory at December 31, 1976, which is not included in these financial statements, is $482,942 (1975 - $834,203).

4. **FIXED ASSETS**

	1976			1975
	Cost $	Accumulated depreciation $	Net $	Net $
Plant, development and demonstration equipment	2,372,793	1,540,025	832,768	963,896
KEY-EDIT 100 equipment on lease	373,970	373,970	—	71,000
KEY-EDIT 50 and 1000 equipment on lease (note 9)	—	—	—	5,272,000
Furniture, fixtures and leasehold improvements	1,044,597	483,261	561,336	666,669
	3,791,360	2,397,256	1,394,104	6,973,565

5. BANK LOAN

Book debts, inventories and a $3,000,000 floating charge debenture have been given as security for the bank loan. The authorized bank line of credit is $8,300,000 including the $5,000,000 term loan (note 7). The $3,000,000 floating charge debenture is subordinate to the $10,000,000 floating charge debenture referred to in note 2.

6. DEMAND LOANS

Demand loans outstanding at December 31, 1975 were discharged during the current year by way of conversion to common shares (note 8) and proceeds from the sale of leased equipment.

7. LONG-TERM DEBT

Description	Principal amount 1976 $	1975 $
9% unsecured Series Two Notes, to mature at 15% per annum of principal amount outstanding on December 31, 1975, payable on December 31 of each year from 1975 to 1980 and the balance on December 31, 1981	1,208,137	1,464,614
Bank term loan bearing interest at rates varying from prime plus ½% to 1%, repayable in semi-annual amounts of $500,000 commencing June 30, 1979, an assignment of book debts and pledge of inventory have been given as security	5,000,000	—
Other debentures and notes (note (A) below)	—	7,577,211
	6,208,137	9,041,825
Less: Current portion	254,358	5,221,000
	5,953,779	3,820,825

(A) Other debentures and notes outstanding at December 31, 1975 were converted during the current year into common shares (note 8).

(B) Under the terms of a bank loan agreement, the company:

(a) must maintain consolidated working capital of $2,250,000;

(b) may not exceed specified aggregate amounts of capital expenditures and lease commitments in any one year.

8. CAPITAL STOCK

During the year, the company obtained articles of amendment increasing its authorized capital by creating a total of 14,260,814 common shares of no par value ranking on a parity with the then existing common shares of no par value.

The authorized common and special shares have been increased and decreased respectively by a like amount on conversion of special shares into common.

	Common shares of no par value		Special shares without par value		Total shares	
	Shares	$	Shares	$	Shares	$
Authorized	20,478,566		1,771,434		22,250,000	
Issued and fully paid	17,790,112	22,089,854	743,984	1,061,940	18,534,096	23,151,794

The non-voting convertible special shares are preferred as to the first 10¢ per share dividend declared in any one year; thereafter, the common shares are entitled to the next 10¢ of dividend in any one year; and thereafter in any one year, the two classes of shares participate equally in dividends declared.

From December 31, 1975 the holders of the non-voting special shares are entitled to convert any or all of the non-voting special shares held by them into common shares of the company on a share-for-share basis. 478,566 special shares were converted during the year into 478,566 common shares.

46,920 common shares have been reserved for the exercise of stock options granted to employees and exercisable at various times to January 14, 1978 at option prices ranging from $1.35 to $2.54 per share.

Her Majesty in Right of Canada and The Ontario Development Corporation converted $20,967,454 of long-term and current debt to 13,978,302 common shares of the company at a conversion price of $1.50 per share and waived interest on such debt for the period from February 16, 1976 to December 30, 1976.

The company, under a technical assistance agreement, issued a total of 700,000 common shares to Fijitsu Limited. A value of $350,000 has been ascribed to the shares by the directors. This amount has been charged to the current year's operations. Under an option agreement Fijitsu received an option to purchase 1,000,000 common shares at a price equal to the greater of $1.00 per share and the book value per share as at the end of the year preceding the exercise date. The option expires December 20, 1978. 1,000,000 common shares have been reserved for this option.

9. SALE OF LEASED EQUIPMENT

The company sells certain of its leased KEY-EDIT equipment to a leasing company on a non-recourse basis. Equipment placed on lease in prior years with a total sales value of $9,962,000 has been included in sales for the current year.

The company services such equipment under contracts, in return for maintenance revenue.

The company advanced to the leasing company a loan in the amount of $1,764,955 being equivalent to rentals received by the company on systems prior to their sale to the leasing company net of related interest and depreciation charges. Such advances are only repayable to the company when the leasing company achieves certain performance levels and therefore the advances have been fully provided for in the accounts.

The present purchase agreement with the leasing company extends to November 15, 1977 for a maximum additional purchase of equipment with a selling value of approximately $14,700,000. Management is presently negotiating an extension of the time period on the maximum additional amount.

10. INCOME TAXES

At December 31, 1976, the company and its U.S. subsidiary had significant losses carried forward which can be applied against future profits to reduce income taxes.

11. EARNINGS PER SHARE

The average number of common and special shares outstanding for the year ended December 31, 1976 was 4,517,374 (1975—3,853,171). Earnings per share and fully diluted earnings per share for the current year have not been calculated as the amount is not significant. The loss per share for 1975 was $3.34. No dilution has been calculated on the 1975 amount as the effect would be to reduce the loss per share.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid to directors and senior officers as defined by the Business Corporations Act for the year was $503,603.

13. LEASE COMMITMENTS

Total rentals paid for the year ended December 31, 1976 and the approximate total of future commitments (excluding tax and similar expenses) are:

	$
Year ended December 31, 1976	575,803
January 1, 1977 to December 31, 1981	2,050,990

14. COMPARATIVE FIGURES

Certain of the 1975 figures have been reclassified to conform with the 1976 presentation.

15. SUBSEQUENT EVENT

Subsequent to the year-end, the company increased its authorized line of credit (see note 5) to $9,300,000.

Auditors' Report To The Shareholders

We have examined the consolidated balance sheet of Consolidated Computer Inc. as at December 31, 1976 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

Five Year Summary

	1976	1975	1974	1973	1972
Sales	25,298,865	15,809,810	15,394,959	12,056,000	11,955,000
Profits	24,117	(12,876,184)	(5,495,843)	(2,570,000)	2,002,000
Total Assets	20,393,356	25,107,318	21,707,924	10,035,000	7,362,000
Property Plant and Equipment (At Cost)	3,791,360	3,980,807	3,318,926	1,865,000	1,018,000
Number of Employees	325	417	656	500	380

CONSOLIDATED
COMPUTER INC.

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